Inside Nokia: trying to revive a giant

By Andrew Hill
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Dealmaker: while some were critical when Stephen Elop and Steve Ballmer, CEO of Microsoft, announced their alliance, Mr Elop says it offers a third 'ecosystem' to challenge rivals

Perspiring slightly under the arc-lights of an in-house television crew, Stephen Elop, **Nokia**'s chief executive, is about to deliver for the 10th time his "town hall" address to staff. He must sell to them the most radical strategy change since the historic tyres-to-timber Finnish conglomerate turned itself into the world's leading mobile phone company in the 1990s.

It is March 18. About 150 staff have crammed into the top-floor canteen of Nokia's central London office to listen to their crop-haired Canadian boss. The "town hall" speech is tailored each time for a different audience. But the style is the same everywhere: direct, open, interactive. "Can everyone hear me?" Mr Elop begins.

EDITOR'S CHOICE

Inside Nokia: Rebuilding from within - Apr-13
Video: Inside Nokia - Jun-04
Business blog: Nokia: crisis, what crisis? - Apr-14
Nokia prepares for drop in market share - Apr-11
Nokia's Microsoft tie-up still under scrutiny - Apr-07
HTC overtakes Nokia in market value - Apr-07

They would have to be deaf not to. In early February, Mr Elop issued his instantly famous **"burning platform" memo** explaining bluntly the gravity of Nokia's predicament and why staff had to take a terrifying jump into the unknown. Soon after, he administered a further shock to Nokia's heart, when he announced the choice of **Microsoft as software partner** for its smartphones, superseding its homegrown Symbian and Meego platforms, and launched a push to reach "the next billion" customers for low-end handsets in emerging markets.

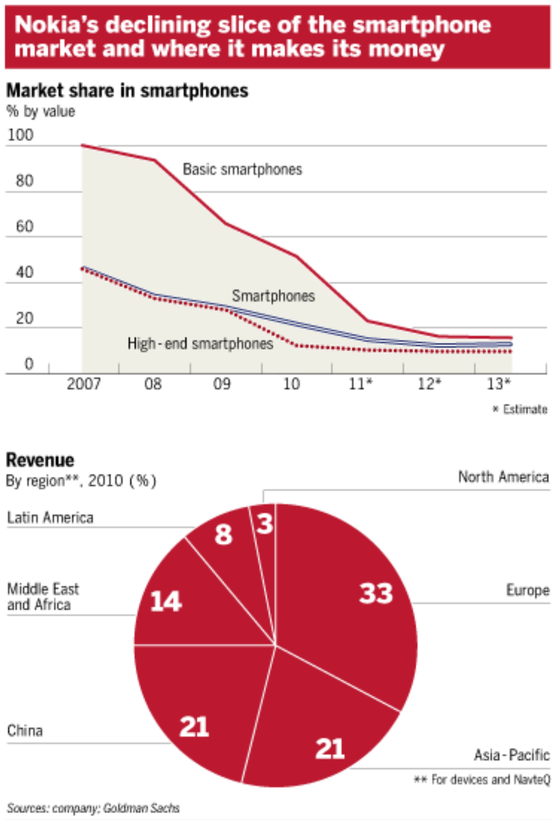
Critics say he is too late and his attempted rescue is doomed. Nokia, a **case study in corporate turnrounds** under Jorma Ollila in the 1990s, cannot be turned round this time, they claim. Poor leadership and complacency bred of success, compounded by an over-consensual culture, caused Nokia to miss the smartphone revolution. Since then it has haemorrhaged share to **Apple**'s iPhone and fallen behind phones based on **Google**'s Android operating system, while taking heavy punishment from emerging market competitors making fast, cheap handsets at the lower end of the market.

A director of one smartphone rival sniffs that in assessing the competition, "Nokia's name wasn't even mentioned". UBS pointed out in a recent research note that the market was "littered with examples of companies failing to deal with shortening technology lifecycles" and warned the "risks to Nokia remain stark".

Pekka Ylä-Anttila, a research director at ETLA, a Helsinki-based economic think-tank, puts Mr Elop's chance of success at only "a little better than 50 per cent".

Scale of the challenge

As the first non-Finn to run the company in its 145 years, Mr Elop is under particular pressure. Shortly after he took over last September, he visited Stockmann, the department store that dominates Helsinki's shopping district, to buy underwear. "I go over to the counter," he recalls with a smile, "and this very young lady was, beep-beep, scanning these in, and she said: 'Can I give you some advice about Nokia?' So there she is, scanning in my briefs, and offering me advice on the future of Nokia."



It was a close-quarters reminder that if Mr Elop fails in his quest, he will be exposed to a blast of criticism as icy as the wind that whips off Helsinki's frozen harbour in midwinter. His protection includes a deep knowledge of the dynamics of the software industry – acquired at Microsoft, his old employer – and, in the words of Mr Ollila, the chairman who hired him, "his tremendous energy and drive". So far this drive has been evident in the big decisions Mr Elop has taken, based on a creed of openness, accountability and speed.

"The very first day I began," he says, "I sent out an e-mail to all of the employees and I asked them three questions: what do you think I need to change? What do you think I need not or should not change? What are you afraid I'm going to miss?"

They e-mailed back in their thousands with a tale of management indecision and staff frustration. "When you have a large organisation where accountability is unclear, many people make decisions and some of them cancel each other out," says Mr Elop, adding that he made a point of "playing back to employees what it was I was hearing", both through blogs, responses to individual e-mails and direct meetings.

"This dialogue was broken in our company," admits Juha Äkräs, Nokia's head of human resources. "When you have a high-tech company, you think that technology solves all your problems and you forget that good face-to-face communication is important."

One former Nokia software developer and manager – who, like many Finnish ex-Nokians, retains too many close links with the company to want to be identified – says those four months were a mixture of confusion and self-preservation, with business leaders unsure they would survive and teams scrambling to impress the new boss.

Why Microsoft?

Simultaneously, Mr Elop asked top managers to address questions about Nokia's competitiveness in the smartphone market. Could Symbian, the platform for Nokia's smartphones, and Meego, the group's next generation operating system, pose a challenge to Apple and Google's Android by the second half of 2011?

In late autumn, senior Nokia executives say, the organic route was still preferred. But at a critical meeting of the leadership team in January, Jo Harlow – in charge of Symbian and now head of the newly formed smart devices division – told Mr Elop that Meego "wasn't mature enough" and Symbian could not fill the gap. It was, she says, "very difficult personally" but the decision focused the top team on whether to link Nokia's future to Android or Microsoft.

Details of the Microsoft alliance will only emerge later this month, when the deal is expected to be completed, but Mr Elop describes it as the logical strategic move. Operators – such as **Vodafone** or **Orange** – would welcome a strong third ecosystem to offset Apple and Google. Nokia-branded Android phones would be hard to differentiate from the mass of competitors. And Nokia had more bargaining power with Microsoft than with Google. With Nokia, Microsoft's Windows Phone "had a significant opportunity to move forward and become a real alternative in the industry. That had huge value for Microsoft. What also had huge value for Microsoft is us *not* going [with] Google." Bluntly, the company would "pay" more for a deal with Nokia than Google.

Stephen Elop and Steve Ballmer, CEO of Microsoft

Lingering questions

On February 3, Mr Elop aired the "burning platform" metaphor for the first time at a staff meeting at Nokia's headquarters in Espoo, outside Helsinki. He says the resulting memo, which leaked days later, was "the point of consolidation" of the "steady pattern of communications and the [staff's] highlighting of issues" that had preceded it.

When Mr Elop's strategic review was broadcast on February 11, front-line staff say its directness struck home. "There was a clear statement of what would happen. It wasn't blah-blah-blah, there were clear targets," says Igor Vinogradoff, a product manager who watched Mr Elop's address with colleagues in Espoo.

In the short term, though, the CEO cannot yet adequately address two critical questions about his strategy: how precisely the Microsoft collaboration will work and how many people will lose their jobs. The former depends on the completion of the deal. The latter is subject to European rules on worker consultation. Addressing London staff in March, Mr Elop said: "I know this is the most difficult time in this journey. The shareholders don't like ambiguity, humans don't like ambiguity either."

The ambiguity is awkward because re-establishing clarity is an Elop priority. "We're shifting to a model where accountability really matters," he says. "It should be clear who gets to make a decision. It should be clear that that person is celebrated when good things happen. It should be clear that, if someone's not living up to their role, then we need to help them."

Ambiguity also fosters fear and could drive key staff to rivals. Mr Ylä-Anttila from the ETLA, says: "Getting the creative people to be part of the strategy is about motivation and keeping people enthusiastic. If [Mr Elop] can't win them over to his side, that will be a major obstacle."

The choice of Microsoft – famously protective of its operating system – pains those at the company who evangelised for open-source software. Says one, who left Nokia shortly after the announcement: "It was a huge shock, followed by lots of denial, and some people are full of anger."

In smartphones, the two-year transition from Symbian-based handsets to ones produced by the new Microsoft alliance represents the point of maximum peril and uncertainty for Mr Elop. The company must manage the disappointment of its developers, encourage enough of them to stay in place to fuel the sale of an estimated 150m Symbian phones in the next two years, and produce a winning Windows-based device as fast as it can – before the end of this year if possible.

"The easier task is to start Windows Phone from a fresh perspective, but the more difficult task is to continue to operate Symbian," says Ms Harlow.

Rivals are not pausing to let Nokia catch up. Last week, the stock market value of Taiwan's HTC, which makes touchscreen Android-based smartphones, surpassed Nokia's.

The 'burning platform' memo

"There is a pertinent story about a man who was working on an oil platform in the North Sea. He woke up one night from a loud explosion, which suddenly set his entire oil platform on fire. In mere moments, he was surrounded by flames. Through the smoke and heat, he barely made his way out of the chaos to the platform's edge. When he looked down over the edge, all he could see were the dark, cold, foreboding Atlantic waters.

"As the fire approached him, the man had mere seconds to react. He could stand on the platform, and inevitably be consumed by the burning flames. Or, he could plunge 30 meters in to the freezing waters. The man was standing upon a 'burning platform', and he needed to make a choice.

"He decided to jump. It was unexpected. In ordinary circumstances, the man would never consider plunging into icy waters. But these were not ordinary times – his platform was on fire. The man survived the fall and the waters. After he was rescued, he noted that a 'burning platform' caused a

Android is gobbling up smartphone share. And in emerging markets such as India, where Nokia is still the most trusted brand, low-end local handset makers are attracting customers.

This all highlights Nokia's recent inability to adapt as fast as its competitors. Mr Elop and his lieutenants must achieve a rapid transformation that refocuses Nokia on sustainable profit and market share, without squandering its culture and creativity.

Another ex-Nokian recalls how the company used to "want ownership of the soul of what it builds", adding: "When the soul comes from [Microsoft], things will be different".

Mr Elop rejects the premise. "Some people write that Nokia is just going to be a hardware company and Microsoft will do the software: nothing could be further from the truth," he says in town-hall addresses. But the contention that his bold gamble will change Nokia for ever is undeniable.

radical change in his behaviour.

"We too, are standing on a 'burning platform', and we must decide how we are going to change our behaviour . . ."
Read the full memo at www.ft.com/elopmemo

Inside Nokia: Part 2

In the second part of his series, **Andrew Hill** assesses how the company is trying to change its management culture to keep pace with peers

Andrew Hill contributes to the FT's ***Business Blog****, about business and strategy and how and why people who run companies make the decisions that they do*

Inside Nokia: rebuilt from within

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One day in early February, Samuli Nyyssonen of **Nokia** boarded a plane in Bangalore working for one company and disembarked in Helsinki working for another.

While the software engineer was in the air on February 11, Stephen Elop, the company's chief executive, had told its 130,000 employees about a **sharp change of strategic direction**. Nokia would ally with **Microsoft** in smartphones, while at the same time boosting the group's basic phone business in an effort to reach the "next billion" users.

In the airy, wood-trimmed staff restaurants at Nokia headquarters in Espoo, just outside Helsinki, thousands of staff gathered to listen to Mr Elop's address broadcast live from a London hotel. When the press release was issued a few minutes before he spoke, employees overloaded the company intranet in their attempts to read it. Instead, they had to cluster round printouts of the official e-mail.

More FT video

In Tampere, nearly 200km north of Espoo, the full implications of a plan that would eventually phase out Nokia's Symbian operating system in favour of Microsoft's Windows dawned on thousands of developers based there. "You could feel in the air this kind of anxiety and then ... when the press release went on to the web, everyone caught their breath," says one who was in Tampere.

Jo Harlow, head of smart devices and in charge of the Symbian team, made the follow-up address to the Tampere workforce in person. Staff listened in near-silence. Some drifted away before she had finished. A month later, she tells me: "I've encountered anger and sadness … Our ability to change from being device-led to being software-led as the industry changed hasn't been fast enough. A lot of anger has come from the fact that we could have been in a different position if we had been able to make the transition more quickly."

Strip out bureaucracy

Mr Elop's plan to make Nokia faster, more transparent and more accountable aims to restore the old agility. He wants to capitalise on the strengths of a company that, in spite of the vast challenges it faces, remains the world's leading handset manufacturer in terms of share of phones shipped. While some people interviewed for this series questioned his choices, all said change was unavoidable. But how to implement it?

The chief executive boiled down the failings of the old structure in his **"burning platform" memo**, when he quoted a Nokia employee who had half-joked that Chinese manufacturers of cheap handsets were "cranking out a device much faster than ... 'the time that it takes us to polish a PowerPoint presentation'."

Mary McDowell, who, as head of the mobile phones division has the task of seeing off the Chinese challenge, says Nokia had become clogged with bureaucracy: "Somewhere along the way, the process became the product."

A series of committees, boards and cross-functional meetings held up decisions. A "brand board" discussed branding decisions. A "capability board" looked at information technology investments. A "sustainability and environment board" monitored Nokia's green credentials.

Most of these boards have been swept away. Even the "GEB" – the group executive board, whose acronym on memos had become, in the words of one ex-manager, "a symbol of incompetence" – has evolved into the NLT, the Nokia leadership team, with the emphasis on "leadership". Decisions are now pushed up to the appropriate leadership team member or down to the team that knows the relevant market.

"Too many things were coming through headquarters before they were going back out," says Mr Elop, adding that local staff e-mailed him to say: "Look, I'm right here in the region. I can make this simple little decision, [but] I'm waiting for someone who is 10 timezones away and has three bosses of their own."

Pushing decision-making down to local teams will be particularly important to Ms McDowell as she tries to inject more pace into handset development in emerging markets. Mr Elop says a lot of commentators have been "sucking each other's exhaust" about the challenges in the smartphone sector, where Apple's iPhone exposed Nokia's device-led approach. He says they have ignored the opportunity for his company to exploit its strong share in developing markets. Nokia made nearly two-thirds of its device and services sales in 2010 outside North America and Europe.

New workstreams

Nokia's change taskforce – run by Juha Akras, head of HR – monitors the new strategy. He says it is not a new matrix – "this is more like an activist programme, line-led" – and relevant executives are involved.Once goals have been reached, the taskforce will be disbanded.

It works on a weekly cycle, covering nine areas:

- Win in smartphones with Microsoft: regain Nokia's leadership in smartphones by creating a full Windows Phone portfolio.
- Win in the low end: expand web access and applications to the next 1bn; connect first-time internet users in developing growth markets.
- Invest in future disruptions: create next-generation devices, platforms and user experiences.
- Build the new ecosystem.
- Seamless market operations: focus on growth through sales, operations and marketing efforts.
- Management processes and planning interlocks: establish a new governance structure, practices and management processes for faster and more effective decision-making.
- Unit-operative processes: develop an effective and efficient R&D site strategy.
- Programme office: lead the overall change management.
- Cultural change: embed the right values, mindsets and behaviours.

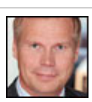
It is also in these markets that the limitations of Nokia's centralised structure were most evident. In India, for example, where Nokia remains the most trusted brand in mobile phones, local teams suffered from Espoo's unwillingness in 2008-10 to provide them with a "dual-Sim" device tailored for Indian users who want to switch Sim-cards for the country's many different regional providers.

Too often, Ms McDowell says, logical decisions to streamline or speed up the process were negated by other requirements. For example, while Nokia got other manufacturers to make the chip-sets that sit at the heart of a mobile phone to speed up production, the company then insisted on complicating and slowing down the process by adding its proprietary software. "We outsourced the chip-sets, but we didn't change how we worked with the silicon," she says.

'Somewhere along the way, the process became the product'
Mary MacDowell
Mobile phones

Ms McDowell is one of the senior executives who is now directly accountable for strategic decisions that would previously have drifted between internal committees and boards. She likens the old structure and approach to a Disney ride, in which the passengers cannot deviate from the route. "Now it's a bit more like being in a canoe," she says. "There are rocks and white water, but you're a little bit more in control."

Managers below the leadership team say the emphasis on autonomy and accountability has improved the tone of meetings. Steven Robson, vice-president in Nokia's finance and control team, says: "Always, someone in the room turns round and asks 'Who's accountable for this?' Before it was



'People aren't doing contradictory things ... We are much more

'Let's discuss this', 'Who's going to decide this?' and then it would be passed to the next level up."

aligned'
Juha Akras
Human resources

Mr Elop says such changes should improve results. "Part of the reason I have confidence in our ability to change gears," he explains, "is because when you look at the things that slow you down – like length of decision-making, confused missions between teams – those are problems we can solve . . . We were in a leadership team meeting and someone said 'OK, we've got this issue to deal with: what's the expected date?' And someone else said, 'Well, that's probably going to take three or four weeks'. It's like 'Hey, guys, we can't take three or four weeks on this one. We need to be looking at it in seven days' – so that's what we're going to do."

Nokia has also made the goals and incentives for the leadership team more transparent. Top executives know, for the first time, about the specific targets their peers must hit. "People aren't doing contradictory things," says Juha Akras, head of human resources. "With this transparency, we are more aligned."

'Our ability to change ... as the industry changed hasn't been fast enough'
Jo Harlow
Smart devices

Some have questioned whether Mr Elop's reshuffle of senior executives went far enough. The average tenure of his leadership team, excluding himself, is about 10 years. "We think this reflects the fact that the new CEO is somewhat dependent on Nokia's experienced executives to ensure that its final Symbian products are delivered," Goldman Sachs analysts wrote in March. "We expect he is giving executives the opportunity to prove themselves under a different leader."

But Jorma Ollila, Nokia's chairman, says the board gave Mr Elop a free hand to make changes – and to readjust the top team in future if necessary. "We told him, 'If you aren't happy with the performance, please come to us sooner rather than later' because clearly it will need refreshing and shaking up in the years to come."

Informed decisions

Even critics admit Mr Elop prepared the ground well for the strategy review. One Nokia developer, who objected to the Microsoft link so strongly that he quit after February 11, says that in one-on-one meetings in January, Mr Elop asked "good, detailed, technical and operational questions, showing that he understood ... There was no possibility of his making a misinformed decision".

A shift of focus

The company has marked six new areas that define how it operates:
- Creating globally accountable business units.
- Local empowerment.
- Revised services mission.
- Simplified decision-making.
- Performance-based culture.
- New leadership principles.

Mr Elop briefed 200 senior managers below the leadership team in a two-day meeting at a hotel in Windsor, near London, before the announcement. Handsets running Windows were distributed so they could demonstrate the software to their teams. (Within days, Windows phones sold out in Finland as Nokia staff sought to experiment with the Microsoft operating system.)

When he landed in Helsinki, Mr Nyyssonen, who headed a 300-strong team working on Symbian, read the official e-mails, made some phone calls he had set up in advance, and watched the company videos. Microsoft was always the most likely choice, he says now, but still he had concerns. "People are thinking about long-term options, about whether they want to stay at Nokia. As a team leader, when the announcement came out, that was my worry," he says.

Two weeks ago, he was handed a new role running one of the Windows Phone engineering programmes. How many are in his team now? "Just me, at the moment," he replies.

Inside Nokia: Part 1

As chief executive Stephen Elop sets about transforming Nokia, **Andrew Hill** analyses how his early decisions are reshaping the company's strategy

Once the Microsoft deal is finalised – expected later this month – Nokia will tackle these concerns in detail, start to add to the teams working on the smartphone alliance and drive the investment in emerging markets. Rebuilding a durable platform for Nokia in the fast-moving mobile phone market is one of the most daunting tasks in modern business. Mr Elop and his team know that transparency, simplification, delegation and accountability are merely the tools – and that the job has only just begun.

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